

UNIVERSITY OF THE SOUTH
Complainant

VS

FEDERAL RESERVE BANK OF ATLANTA, NASHVILLE BRANCH.
Defendant.

The defendant, the Federal Reserve Bank of Atlanta, Nashville Branch, for answer to so much and such parts of the original bill heretofore filed against it in the above entitled cause, as it is advised it is material for it to answer, answering says:

-I-

It believes it to be true that the complainant is a charitable corporation, chartered, and existing under the laws of Tennessee, and is an educational institution with its buildings and equipment located at Sewanee in Franklin County, Tennessee.

The Federal Reserve Bank of Atlanta on the day named in the original bill, and for sometime prior thereto, had maintained a branch at Nashville, Tennessee known as the Nashville Branch of the Federal Reserve Bank of Atlanta, but this Branch is not a separate corporation, or in any legal sense a different entity from the Federal Reserve Bank of Atlanta, but on the contrary, is the Nashville office of the Federal Reserve Bank of Atlanta, a body corporate, organized and existing by virtue of the laws of the United States.

-II-

The defendant admits it to be true that the National Bank of Franklin was a corporation, chartered under the laws of the United States, and in September 1926, and for many years prior thereto, was engaged in the banking business in Franklin, Williamson County, Tennessee; and the defendant believes it to be true that E. E. Green was the cashier and Bates L. Green was the

assistant cashier of the National Bank of Franklin.

This defendant is not advised as to whether or not prior to September 1926, the Misses Claybrooke had on deposit in said National Bank of Franklin a considerable sum of money, more than \$20,000.00, and also a fund in excess of \$8,000.00, which was in the name of Miss Eliza M. Claybrooke, as administratrix of their deceased sister, Miss Annie Claybrooke. The defendant avers that the records of the Bank of Franklin are the best evidence in this regard, and this defendant has no knowledge of what amounts of money were set to the credit of the above named parties in the National Bank of Franklin prior to September 1926.

The defendant is not advised, as to any arrangement or agreement made between the University of the South and the Misses Claybrooke to the effect that the latter intended to make a gift to the University of the South in the sum of \$8000 for the purpose of endowing a scholarship at the University of the South.

-III-

The defendant has no knowledge of any conversations, arrangements, or transactions, which may have occurred between the Misses Claybrooke and the cashier of the National Bank of Franklin about September 1, 1926, and this defendant has no knowledge, and is not concerned with any statements that may have been made by the cashier of the National Bank of Franklin to the Misses Claybrooke as to the method to be pursued by depositors in withdrawing funds standing to their credit in the National Bank of Franklin, and the defendant neither admits nor denies the averments in Paragraph III of the Original Bill, and further avers that so far as it is concerned,

they are immaterial and do not require an answer from it. The defendant admits that the form of check which appears in the original bill as the last paragraph of section III of said bill is a true and correct copy of the original check which afterwards came into its possession, and which it attempted to collect from the Bank of Franklin, but without success, as hereinafter more particularly set out.

The original check had prior to October 7, 1926 been sent to defendant for collection by the Hamilton National Bank of Chattanooga, Tennessee, and the same was, as herinafter more particularly set out, sent by defendant to said National Bank of Franklin for payment and remittance. Said National Bank of Franklin, Tennessee, refused payment of said check, assigning as reason for such dishonor the lack of sufficient funds to the credit of the drawer; after such dishonor, defendant returned said check, to-wit, on October 7, 1926 to said Hamilton National Bank of Chattanooga, Tennessee from which it had been received by defendant.

-IV-

The defendant is not advised as to when the check for \$8,000. was sent to the complainant, nor is the defendant advised as to the course of conduct of the Bank of Sewanee in forwarding the item for collection to the Hamilton National Bank of Chattanooga, Tennessee, but it believes the averments of the bill in regard to these matters to be correct.

It is true that on October 5, 1926, the defendant received the check in controversy as well as other items from the Hamilton National Bank of Chattanooga, Tennessee, for collection. On October 5, 1926, the defendant forwarded this \$8,000 item together with various other items to the drawee bank, the National Bank of Franklin, and this defendant believes

it to be true that the \$8,000 check, and such other items embraced in its letter of October 5, 1926 reached the National Bank of Franklin on October 6, 1926, but if by the averment that said check was listed by the National Bank of Franklin as a cash item at the close of business hours on October 6, 1926, it is meant to state that said item was paid on October 6, 1926 by the National Bank of Franklin, this averment of the original bill is denied as will more fully appear from a subsequent part of this answer.

The defendant admits that no protest for dishonor was made by the drawee bank, and as no liability of any endorser was to be fixed, and as the check in controversy was drawn and payable in the State of Tennessee, protest thereof for dishonor was unnecessary. Promptly upon the return to defendant by said National Bank of Franklin of said check unpaid, notice by telegram was given the Hamilton National Bank from whom said check had been theretofore received for collection as hereinbefore stated.

Defendant admits that on October 6th, and on October 7th, 1926, the National Bank of Franklin had to its credit in its account with the Federal Reserve Bank of Atlanta more than \$20,000.00. Defendant is advised, however, that the averments of the bill in this regard are immaterial, and need not be answered since said check of \$8000 purported to have been drawn upon an account in favor of the drawer of said check in said National Bank of Franklin, and not upon funds standing to the credit of said National Bank of Franklin in the Federal Reserve Bank of Atlanta.

V

Defendant is advised that it is true that said National Bank of Franklin opened its doors for business on the morning of October 7, 1926,

and that before the close of business hours, it suspended payment and closed its doors. It is not advised as to the reasons why said bank became insolvent, nor as to why its doors were closed and a receiver appointed, nor as to the amount which will be paid to depositors by way of dividends. Defendant says, however, that the averments of Paragraph V of the bill in this regard are immaterial, and irrelevant to cause of action in said bill attempted to be set up, and for said reason no answer thereto is required.

-5-

Defendant denies that on October 7, 1926, the defendant sent an employee and agent to Franklin upon any matter related to or arising from or connected with the said \$8,000 check. It denies that the said \$8,000 check had been paid by said National Bank of Franklin as a cash item or in any other way or in the course of business of that bank on October 6, 1926, or at any other time. It denies that said defendant, through its agent and employee, brought said check back to Nashville, and thereafter returned the same to the Hamilton National Bank, the fact being on the contrary that said National Bank of Franklin itself returned said check to defendant on the morning of October 7, 1926, assigning as a reason for said non-payment the lack of sufficient funds to the credit of the drawer as hereinbefore stated. With such non-payment this defendant was in no way involved, and in nowise concerned. It had nothing to do with the return of said check. Upon its receipt unpaid, as aforesaid, the same was returned to the Hamilton National Bank of Chattanooga, Tennessee, as heretofore stated, along with the information that the drawee bank had refused payment because of the lack of sufficient funds

to the credit of the drawer.

Defendant admits that on and prior to October 7, 1926, the said National Bank of Franklin was indebted to the defendant in a large amount of money for the payment of which defendant held collateral, but defendant denies that it caused said \$8,000 check to be dishonored or that it took the same from the drawee bank to obtain for itself any benefit as alleged in Section VI of said bill. Defendant denies that it had anything to do with the non-payment of said check or with its dishonor, and denies any other averment of Section VI of said bill which is not in this answer admitted.

VII

Defendant denies each and every averment of Section VII of said bill. It denies that any relationship of principal and agent existed between complainant and defendant, that it had anything to do with the return unpaid of said \$8000.00 item, or that it was guilty of any breach of trust or violation of any duty, either to complainant or any other person at any time handling or interested in said check. It denies that it is liable to complainant as the holder of said check, or to anyone else because of any matter or thing in said Paragraph VII or elsewhere in said bill alleged.

Defendant is one of the twelve Federal reserve banks, organized and existing under that certain Act of Congress known as the Federal Reserve Act, as from time to time amended. Pursuant to the provisions of said Federal Reserve Act, as amended, the Federal Reserve Board has required each Federal Reserve Bank, including this defendant, to exercise the functions of a clearing house for member banks to the end that such member banks may collect checks deposited with them and drawn on banks in other localities through

the collection facilities afforded by such Federal reserve banks. The requirement of the Federal Reserve Board in this regard was embodied in a regulation which was in force at the times and upon the dates mentioned, known as Regulation J, Series of 1924, a true copy of which is attached hereto, and made a part hereof, and marked Exhibit A, but the same need not be copied as it will be produced if required at the hearing.

Said Regulation was made and promulgated pursuant to the power and authority vested in said Federal Reserve Board by the Act of Congress aforesaid as will appear by reference to said Regulation. A Federal reserve bank receives checks for collection only from other banks, who are members of, or otherwise affiliated with said Federal Reserve System, and in the event of the receipt of such checks for collection will act only as agent of the bank from which same are received. Defendant avers, therefore, that, with respect to said check, its receipt, or the handling thereof, it stood in no contractual relationship with the complainant and that there was and is no privity of contract between complainant and defendant, which would authorize the bringing of maintenance of this action.

This defendant, pursuant to the power and authority vested in it by said Federal Reserve Act, and by Regulation J, which is hereinbefore referred to, issued, promulgated, and sent to each of its member banks a certain circular issued under date of June 1, 1925, and entitled "Check Clearing and Collection - General Conditions under which Cash Items will be Handled." Said check collection circular was in force at all the times and dates mentioned in said bill. A copy of the same is hereto attached marked Exhibit B

and made a part hereof, but need not be copied as it will be produced if required at the hearing.

The defendant especially pleads and relies upon Regulation J, Series of 1924, and the Circular Letter aforesaid, as defining its liability when acting as a collection agent, and it avers that the terms and conditions prescribed by the Regulation and the Circular Letter constitute the contract entered into by it when acting as agent of the Hamilton National Bank of Chattanooga, Tennessee in collecting the item now in controversy, and the same prescribed the sole and only conditions under which defendant could have undertaken the collection of said \$8,000 check.

Defendant avers that on or about the fifth day of October 1926 it received from the said Hamilton National Bank of Chattanooga, Tennessee, the said \$8,000 check along with other checks drawn on said National Bank of Franklin, Tennessee. Said checks were placed with defendant to the end that the same might be collected under the conditions and pursuant to the terms of Regulation J and the cognate collection circular of defendant. Said checks so received from said Hamilton National Bank along with other checks drawn on said National Bank of Franklin and received from other banks were enclosed with a cash letter bearing date, October 5, 1926, and sent through the mails by defendant to said drawee bank.

On the morning of October 7, 1926, said National Bank of Franklin sent a messenger to the Federal Reserve Bank, Nashville Branch, with a letter signed by Mr. Thomas B. Johnson, president of the National Bank of Franklin, to which letter were attached the \$8,000 check now in controversy and several other small checks which the letter stated were returned by the National Bank

of Franklin to the Federal Reserve Bank of Atlanta, Nashville Branch, because of insufficient funds standing to the credit of the drawers on the books of the National Bank of Franklin. The defendant on the receipt of said letter from Mr. Johnson wired to its correspondent, the Hamilton National Bank of Chattanooga, Tennessee, that said \$8,000 check had been dishonored by the drawee bank, the National Bank of Franklin, and the defendant on the same day returned said check to its correspondent, the Hamilton National Bank of Chattanooga, Tennessee.

VIII

All other allegations of the original bill, not herein admitted or denied, are generally denied, but with the same particularity as if specifically denied, and now having fully answered, this defendant prays to be hence dismissed with its reasonable costs.

FEDERAL RESERVE BANK OF ATLANTA,
NASHVILLE BRANCH,

By _____
Manager.